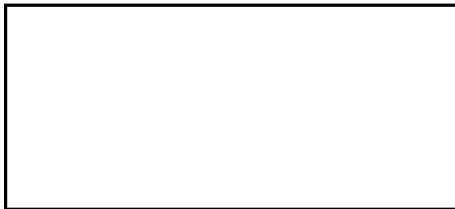


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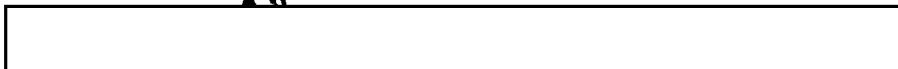
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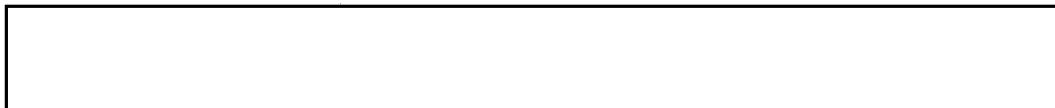
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1. HUNGARIAN MORALE AT LOW EBB

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The American legation in Budapest reports that recent international and domestic developments, including the documented Soviet announcement that the

USSR possesses the H-bomb, "have plunged the Hungarian public into the most dejected state of mind observed in many months." The people fear that the stress on industry at the recent National Assembly meeting means that they will have to make greater individual sacrifices. They feel that the two Geneva conferences this year have demonstrated that the iron curtain is still firmly in place.

The legation is concerned over the possibility that the Hungarian people, their hopes for liberation shattered, will become resigned to living under Communism and will increase their labor effort and their support of the regime's program in order to better their own living standards.

Comment

Party leader Rakosi's success during the past six months in tightening party, labor and civil discipline, coupled with the loss of popular hope for liberation, has led to a sharp drop in public restiveness and resistance. This was particularly evident in the lack of peasant opposition to the regime's crop collection this fall.

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2. BURMESE COMMUNISTS PUBLICLY OFFER TO SURRENDER

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The insurgent Burma Communist Party, in a move coinciding with the arrival of Bulganin and Khrushchev, has reportedly made a public offer to

surrender under the following conditions: (1) that Burma not enter into any pact with the Anglo-American bloc; (2) that all political prisoners be released after a certain date; and (3) that Communist parties and "other Democratic groups in Burma" be accorded full constitutional freedoms.

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The military position of the Burma Communist Party, the only significant insurgent Communist group in Burma, has been increasingly deteriorating. The re-emergence of this party as a political entity would permit the Communists to broaden their country-wide political network and thus improve their prospects in the April national elections.

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3. NEW FIGHTING IN LAOS MAY BE IMMINENT

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Laotian government officials anticipate an early offensive by the Communist Pathet Lao designed to interfere with the National Assembly elections on 25 December. Royal

forces, for their part, are considering military action of their own shortly after the elections, in an attempt to re-establish control in the north; they would, however, respond vigorously to any Communist attack prior to the elections.

The American army attaché in Vientiane has received reports of an increased flow of ammunition to the Pathet Lao and of training with heavy weapons, possibly indicating plans for an offensive. He believes, however, that Pathet morale and operational capability are at their lowest level in months, citing reports that battalions are understrength, short of food, and in some cases politically unreliable, and that Pathet forces are facing increasing resistance from the local populace.

The attaché believes royal government troops could--assuming concentration of their forces, an assured airlift resupply capability, and nonintervention by Viet Minh units--successfully destroy or drive out the Pathet Lao.

It is probable, however, that in any action that threatened to destroy the present Communist hold over northern Laos, the Viet Minh would commit sufficient troops to maintain the Pathet position.

4. PREMIER ADMITS POSSIBILITY OF ARMED CONFLICT IN BANGKOK

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Premier Phibun acknowledged to the American chargé on 1 December the possibility that the present political crisis in Bangkok may lead to armed conflict. He said the recent army alerts followed threatening letters to General Sarit, allegedly sent by supporters of Police Director General Phao. He did not implicate Phao directly and denied rumors that the police chief would leave the country.

In a conversation with the American army attaché, Sarit gave substantially the same explanation for the current uneasiness. He insisted the army would not be used to settle political disputes as long as he commanded it.

Comment Phao would probably not be averse to encouraging fears of assassination by his gunmen, but it is still questionable whether he is ready to resort to drastic measures to retrieve his political position.

Tension continues high in Bangkok, however, and armed strife is an ever-present possibility. It would most likely be initiated by the Phao forces to offset further moves by Phibun to reduce the police chief's power and status.

5. BRITISH AUTHORITIES IN SINGAPORE CONSIDER SUSPENDING CONSTITUTION

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The acting chief secretary of the Singapore government has privately informed the American consulate general that British authorities are considering suspending the colony's constitution if the political situation continues to deteriorate. He speculated that such action might help the moderate and conservative political groups to strengthen themselves, while left-wing elements would be suppressed.

The British official said that Chief Minister David Marshall recently had wanted to resign because his government was sustained only by the votes of British officials in the legislature. He was persuaded, however, to remain in office and proceed with his visit to London to discuss greater self-government.

Comment

The British would suspend the Singapore constitution only if necessary to thwart establishment of a pro-Communist government. Communist influence has been growing in Singapore for some time.

Marshall can be expected to be attacked for "selling out" when he returns from London--no matter what he achieves. Such attacks might force his resignation and bring on new elections in which the Communists would probably make substantial gains.

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6. ECUADOR MAY BREAK RELATIONS WITH CZECHOSLOVAKIA

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The Ecuadoran government is seriously thinking of breaking relations with Czechoslovakia, according to the Ecuadoran minister of the treasury. The minister told American chargé Wieland on 30 November that his government was convinced that the Czech legation in Quito was "up to its ears" in the recent student riots.

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Comment

Ecuador, following repeated Czech requests, agreed in September 1954 to the appointment of a career diplomat to the Czech legation in Quito which previously had been headed by an individual the Ecuadorans considered "more or less harmless." Ecuador appeared to be motivated primarily by the desire to acquire arms.

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Over the past year Czechoslovakia has expanded its diplomatic and trade representation in Ecuador.

One of the two professors whose transfer led to the recent student disturbances in Quito is the finance secretary of the executive committee of the Ecuadoran Communist Party.

The only other country of the Sino-Soviet bloc with which Ecuador has diplomatic relations is Poland, whose minister in Mexico is accredited to Quito.

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8. BRAZILIAN LABOR PARTY MAY UNDERTAKE PURGE OF COMMUNISTS

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the
American embassy in Rio de Janeiro
has reported that moderate elements
in the Brazilian Labor Party, led by
party vice president Souza Naves, are working toward an
eventual purge of Communists and sympathizers from
party ranks. [Redacted] Joao
Goulart, party head and vice president-elect of Brazil,
"appeared agreeable" to such action.

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The embassy notes that a statement
of 29 November by Goulart's press agent predicted a
showdown between Goulart and the Communists. The
statement warned that Goulart must either oppose the
Communists or lose his labor support to them. The
embassy believes this statement was made in the hope
of making Goulart less objectionable to the military and
to conservatives.

Comment

Goulart has in the past, particularly
when he was labor minister under
Vargas and during the recent election, appeared willing
to work with Communists. It is probable, however,
that he would take an anti-Communist stand now if con-
vinced that the advantages to him would far outweigh the
disadvantages.

The press statement reported above
may be part of an effort to remove the pro-Communist
stigma from the incoming Brazilian administration, which
is expected to make an early approach for sizable US
financial aid.



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THE ARAB-ISRAELI SITUATION

25X1A (Information as of 1700, 2 December)

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[redacted]
[redacted] Small-scale fighting between Egyptian and Israeli forces occurred in the southwest Gaza strip area on 1 December. Each side has charged the other with opening fire. [redacted]

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Recent statements by top-level Israeli officials that Israel's chances of winning a war against the Arabs are rapidly diminishing and that Israel "could fall victim to enemy armies within 48 to 72 hours" are probably designed to encourage favorable decisions in the Western world on arms sales and financial contributions. However, according to the American embassy in Tel Aviv, the statements have alarmed the Israeli public and have evoked strong criticism from the press, some journals accusing the government of preparing the ground for "a new Munich." [redacted]

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The Jordanian Foreign Ministry has informed the American embassy in Amman that the political committee of the Arab League will meet after 15 December to discuss British prime minister Eden's statement on Arab-Israeli relations. Despite the mildly favorable reaction of several Arab states to Eden's 9 November speech, this meeting will probably produce little more than a call for implementation of the 1947 UN resolutions on Palestine.

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[redacted]

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[redacted]